

STEEL TRADE TENSIONS BETWEEN THE U.S. AND THE EUROPEAN COMMUNITIES

ISSUE

U.S. unfair trade statutes require the imposition of special duties on imports benefitting from subsidies or dumping (sales below fair value) and causing injury to a U.S. industry. On June 10, the Commerce Department issued a preliminary determination that certain major steel producers in France, Belgium, Italy, and the U.K. receive subsidies ranging from 18-40% of the value of production.

Imposition of the duties, which would equal the level of subsidization, would effectively exclude those producers from important sectors of the U.S. market. At the same time, the Commerce Department found that major producers in West Germany and the Netherlands do not receive significant subsidies. While those producers (and their governments) are pleased at our preliminary determinations, they fear that their own markets could be severely disrupted by steel coming from the countries effectively excluded from the U.S. market. The importance of the steel industries in the countries named means that the European Communities (EC) must consider the U.S. action as a major trade irritation, even though the existence of the subsidies was widely acknowledged, and the U.S. action is both required by our law and clearly permitted by the GATT international agreement allowing countervailing duties.

At the same time, failure by the Administration to enforce our statutes and our rights under the GATT agreements could lead to domestic pressures for extreme protectionist measures by the U.S.

In accordance with Administration policy, Secretary Baldrige left for Europe on July 7 to resume intensive efforts to find a solution acceptable to all sides that will enable us to settle these cases prior to October 8, (the date by which, under the statute, final determinations in the subsidy cases must be made by the International Trade Commission). Preliminary determinations are due August 9 in dumping cases covering the same EC countries and products. These determinations may heighten the existing tensions. Any settlement must relieve the U.S. industry of injury caused by the subsidized or dumped imports, while still providing a trade regime that will not totally eliminate major segments of U.S.-EC trade in steel.

BACKGROUND

The world steel industry has been in crisis since 1975 as a result of growing structural imbalance between supply and demand as well as recurrent cyclical downturns. The industry in many EC

NSC review completed.

Not referred to CBO. Waiver applies.

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countries has adjusted poorly, relying on increasing government financial assistance rather than closing excess inefficient capacity and reducing its excess labor force. The West German steel makers' trade association estimates that \$30-35 billion has been spent or is already committed by governments of other EC countries for steel for the period 1975-83. In the last two months alone, the French Government has proposed about \$4 billion in additional subsidies, leaving the Dutch and German steelmakers to seek help from their governments in order to modernize and stay competitive with their heavily subsidized neighbors.

The current recession in Western Europe has hit steel quite hard, with production levels down 3.9% in May 1982 from last year's low level, and capacity utilization down to below 65%, while imports (i.e., from outside of the EC) now take 10% of the market (up from 7% in 1981).

The EC approach to the current steel crisis has been to raise internal prices through coordinated cutbacks in production. For the third quarter of this year, production is scheduled to be reduced by 40%, while steel industry employment has continued to decline and alternative employment is scarce at a time of extremely high unemployment for Europe (over 9%). As a result, continued steel subsidization has become a political necessity for several governments, either out of desperation (Belgium), as part of national economic programs (France and Italy), or to keep a nationalized steel company going while reducing it down to a rational size (Great Britain). Nevertheless, the EC member states recognize the need to eliminate obsolete and excess capacity, and to create an industry that can compete without government assistance. The EC as a whole is committed to a State Aids Code in steel designed to eliminate both excess capacity and subsidization by the end of 1985.

While exports from the countries likely to be excluded by the cases only amount to about 2% of those countries' steel shipments, the loss or redirection to internal markets in the EC of this production would exacerbate steel-related economic and political difficulties, especially in Belgium and France.

The U.S. industry has adjusted somewhat better than the European industry, by closing obsolete plants, reducing its labor force, and investing in modern equipment when funds are available. High import levels can harm the U.S. industry, not only by depriving it of sales, but also because the low price levels caused in part by imports have prevented the industry from obtaining the capital (either through retained earnings, or outside financing) necessary for modernization. Since November 1980, the U.S. steel industry, relying on the Administration's economic recovery program has announced \$6.6 billion in new capital investment, but in recent months a number of those projects have been put on "hold" as a result of declining demand, low prices, and high levels of imports.

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The U.S. industry's capacity utilization, which averaged 77.7% in 1981, dropped below 50% by May 15 of this year, and has not gone above 50% since. Many of the major steel producers will lose significant sums of money this year, and one is reported to be approaching bankruptcy. Over 135,000 steel workers are laid off or on short-time (31% of the industry). Imports have reached 24% of consumption. While imports are not the sole problem for the industry, failure to address the trade problem vigorously would have serious political consequences for the Administration.

The U.S. industry in 1977 and in 1980 sought to have the U.S. government enforce the unfair trade laws. The U.S. government, wishing to avoid a dispute with the Europeans, sought to buy time for the Europeans to move their industry on to a sound commercial footing so that the EC industry might compete internationally without dumping or subsidization. Both times, the Carter Administration persuaded the U.S. industry to withdraw its complaints, first by establishing the trigger price mechanism (TPM) in 1977, and then by strengthening TPM in 1980, to run for five years. The maintenance of the TPM through 1985 was intended to protect certain European producers from countervailing duty (and possibly antidumping) complaints. Nevertheless, some of the European producers openly (or through evasion) undercut the trigger prices in 1981 and rapidly expanded their sales while the demand in the U.S. market declined substantially. Because the European producers violated the TPM, the American industry now doubts the good faith and reliability both of the European producers and the EC Commission. They will insist that any settlement guarantee that they not be deceived again.

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